

## **IMPACT OF CULTURE ON HRM PRACTICES OF MNCs IN DEVELOPING COUNTRIES: A REVIEW**

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### **ABSTRACT:**

The world has transformed itself into a global village. In the WTO regime, the companies which were doing business only in their domestic countries are stretching their arm throughout the world. These Multinational corporations(MNCs) normally try to transfer their 'best practices' to their subsidiaries followed by their continuous interactions with local environment and cultural paradigm, resulting in some modifications which may eventually lead to devising a befitting best workable solution at that point of time i.e. Hybrid system. The equilibrium amongst diverse cross-cultural variables affects the degree/ stage of hybridization. It does not mean that hybridization would be the ultimate result or end product. Since it is a process, it has to be dynamic in nature, requiring its testing on periodic basis and must incorporate course correction measures wherever needed in future.

(Keywords : Cross-cultural interface, Convergence, Divergence, Hybridization)

### **Introduction:**

In the WTO regime, the companies which were doing business only in their domestic countries are stretching their arm throughout the world. Companies like Microsoft Corporation, Nestle, Procter and Gamble, PepsiCo, Sony Corporation and many others are doing businesses in most of the

countries. Managing these businesses (both internally & externally) successfully, throughout the world, is a herculean task. The internal and the external environment is something which erects various challenges in front of these companies. As far as external business environment is concerned, proper understanding of political, legal, social, technological factors is necessary, whereas HRM strategies has emerged as a vital ingredient of internal environment.

In the recent times, the academicians and practitioners have given too much attention on the role of cultural dynamics in designing HRM strategies. As the workforce of MNCs consists of people coming from various cultures, the organisation should always be ready to learn new things and adapt accordingly.

Very few researches have been conducted to examine the nature and the processes of HRM practices at the cross cultural interfaces. In cross-cultural organisational behaviour or management literature, less attention has been paid to cross-cultural interfaces, the dynamics of culture in intercultural encounters, than cross cultural differences (Jackson & Aycan, 2006, ; Gelfand, Erez & Aycan, 2006).

Normally those MNCs that operate globally on a large scale are of particular importance in studying the dynamics of culture in intercultural encounters between developed versus developing world. The effective and appropriate transfer of HRM practices from developed to developing world, which might be difficult to imitate, is perceived as key to success of MNCs (Liu, 2004). To deal with the challenges posed by intercultural encounters, the Human resource managers will have to adopt Hybrid models. Hybridization of HRM practices in MNCs is a balance of global and local influences through an admixture of different cultural influences ( Edwards & Kuruvilla, 2005; Jackson, 2004). Global "Pushing" forces and local "Pulling" factors interact and lead to the creation of hybrid practices by combining the best practices of each home and host country. Not only the hybridization process of HRM practices but also its outcome are found missing in the literature.

### **Literature Review:**

Operating in a global environment requires HRM in MNCs to vary due to the incompatible demands that arises from MNCs attempt to be locally responsive, maximising their ability to respond to the needs of the host country such as economic, social, political and legal constraints, while preserving global integration, maintaining their corporate structure worldwide (Horwitz, Kamoche & Chew, 2002).

Culture is central in managing the current global workforce dynamics. Aguilera & Dencker (2004) have divided culture into two distinct but overlapping groups ; Organisational culture and National cultures. If multinational companies want to be successful and maintain a competitive advantage in any international domain, they must adopt an organisational culture that is properly suited in the context of the national culture within which they operate is premised on the belief that leadership styles and behaviours are culture-bound (Kauda, 2010).

Jaeger (1986) conducted research on the applicability of human resource practice in developing

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countries and asserted that although there is strong will to replicate western human resource policies, but those policies cannot be implemented successfully. Where there is a congruence between national culture and human resources practices, research shows a positive correlation between this particular outcome and organisational performance (Harzing, 2011). Among the cultural classifications that have shown the linkage between cultural values and workplace behaviours, attitudes, and other organisational outcomes, that of Hofstede is the most influential (Kirkman, Lowe, & Gibson, 2006). Even though culture has numerous definitions, Hofstede's definition and cultural dimensions are accepted as the most cited one (Lu, 2006). Culture argued to be best expressed as "the interaction of values, attitudes and behavioural assumptions of a society" (Thomas, 2008). Culture can be described as a set of shared mental representations by particular social groups about the way things ought to be or one should behave (Hofstede, 2007). Culture is conceptualised at the societal and organisational levels. The underlying rationale is that while culture in societal level refers to "shared values among people with respect to how a society is structured and how it functions while culture at organisational level refers to " shared management beliefs and assumptions about employee nature and behaviour". Identifying and comparing the unique characteristics of HRM across different nations, rather than just dealing with the problems of MNCs operating outside their home country, have recently become popular among scholars, with the aim of helping MNCs to adapt and fit their HRM systems across countries (Muller-Camon, 2000).

### **Convergence Vs Divergence:**

Convergence has often been subsumed under the term globalisation, transcendence of national boundaries through increasing interactions and connections (Xue, Cunningham & Rowley, 2007). The convergence approach proposes that despite cultural differences, homogeneity exists among organisations , and moreover, managers around the world hold similar attitudes and behaviours (Ralston, 2008). Since managerial values and behaviours differ across cultures and institutions, a single best way to manage organisations across different countries may not be applicable (Myloni, Harzing & Mirza, 2004 ). Then the divergence framework fills this void. The divergence view, localisation, in general points out the differences among societies resulting from culturally endorsed values held by individuals, despite the growing economic and social similarities between nations resulted from globalisation (Khilji, 2002). Contingency view as the main alternative to this convergence argument, suggests that there is no one best way or one ideal type of HRM, but range of choices that are 'appropriate' across different situations (Gibbs, 2001). To resolve the debate on convergence and divergence, it is suggested that the focus should be on contingency approaches, 'crossvergence' or 'hybridization'.

### **Crossvergence or Hybridisation:**

It reflects the transitional state and the outcomes in between" the extremes of convergence and divergence (Ralston, 2008). Crossvergence, in brief, argues that both convergence and divergence

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are appropriate theoretical approaches to produce a unique set of values influenced by both national culture (East & West) and economic ideology (Capitalism & Socialism) (Ralston,2008; Ralstone et al. 2008). It is a process of "developing of hybrid value systems as a result of cultural interaction"(Jackson, 2002) Hybridity is one of " the emblematic notions of our era" (Kraidy,2005), an era with a trend to blend. Things are commingling, melting into one another, so are the cultures due to globalisation and wide-ranging cross cultural encounters (Kraidy,2005).

Research has revealed that cross cultural interactions or crossvergence in Hong Kong has lead to successful hybrid management practices in spite of the adoptions of inappropriate solutions through some hegemonic influences from the western developed countries (Jackson, 2002). Research also revealed that in China the value orientation of young well-educated Chinese has been shifted towards a more individualistic value system (Gamble,2006). Leat & El-Kot (2007) studied the implementation of HRM practices in Egyptian organisations and found that HRM practices within Egyptian organisations are shaped by a combination of both culture and culture free factors. Providing employment security and seniority based management (e.g., seniority based compensation system) have been the basic characteristics in Korea & China (Chang, 2006; Gamble, 2003). Purcell and colleague's study (1999) that investigated the Japanese MNCs in Australia revealed that while only 15% of participating organisations operated an unmodified local system, 85% of them were classified as hybrids that have been 'Japanised' to some extent. The eastern cultural values ( e.g. Malaysian, Chinese ,Thai) emphasize harmony and avoidance of conflict, face saving, deference to superiors and respect for elders, acceptance of hierarchy, group rather than individual interests, loyalty to the group, reliance on social networks and accordingly preferential treatment of this network members ( Zhu, Warner & Rowley, 2007). In the study of Gamble (2003) on transfer of practices of British MNC to Chinese subsidiary, results revealed the influence of the interplay of diverse factors and reflect hybrid elements in the transfer of practices. Some recent research in Japan also asserts that the Japanese HRM, as one of the leading economies in East Asia, experiences a transition stage and develops a hybrid model at this stage. Different factors influence both changes towards non-traditional HRM (e.g. Changing attitude of younger Japanese, shift towards meritocracy rather than seniority) as well as some resistance towards changes (e.g., the legal framework protecting employees from dismissal ( Zhu, Warner & Rowley,2007).

Increased globalisation has given birth to the debate about convergence and Divergence in international management, bouncing from one extreme to the other ( Khilji, 2002). MNCs have two options in the transfer of HRM practices in its subsidiaries : localisation, adopting locally designed HRM practices, or globalisation, acceptance of HRM practices originating with the parent company (Liu, 2004). Research tends to suggest that hybridization HRM as a balance between localisation and standardisation requirements is increasingly present in many international joint ventures ( Bjorkman & Lu,1999), since the transfer of management practices , an original practice goes through dynamic modification, which, in effect, is the process of hybridization ( Boyer, 1998). Numerous studies confirmed the differences between cultures on a variety of values, mainly

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between western and non-western countries (Silverthorne, 2005). While western values include performance orientation and achievement, hard work, individualism and competition, values in developing economies generally include collectivism, fatalism and co-operation. These values then have a strong influence on the implementation of HRM practices. Culture also influences multiple characteristics of recruitment and selection including its purpose, the criteria used, and the methods (Aycan, 2005). In high power distant collectivist cultures, criteria like ascribed status, interpersonal relations rather than hard criteria like technical knowledge, skills and abilities are emphasised in recruitment and selection (Budhawar & Khatri, 2001). Word-of-mouth is one of the mostly used recruitment method in collectivist cultures, because of the importance given to commitment and loyalty (Papalexandris & Panayotopoulou, 2004).

### **Result and Discussion:**

The majority of the studies on cross cultural transfer of HRM practices are mainly based on large-scale surveys and on interview with managers and professionals. However, detailed and qualitative case studies provide the opportunity "to follow through complex linkages, explore processes, and uncover how decisions are really made" (Ferner et al., 2005). Hence by combining both approaches in a single-study, and by adopting combined methodology we can enhance our understanding of the hybridization process and its outcomes.

Yavuz, (2009) revealed that implementing hybrid HRM practices in MNCs where people from different cultures interact, resulted in employee's perception of appropriate and effective HRM, which in turn lead to positive employee attitude including higher organisational commitment and lower turnover intention irrespective of cultural context. He further suggested that MNCs should take in to account the fact that both western and non-western management characteristics of HRM should be incorporated in organisational practices to increase their appropriateness and effectiveness.

HRM plays a critical role in attaining organisational effectiveness and competitiveness in the current globalised work environment. HR manager of a MNC, in one's home country, may want to apply consistent HRM practices across nations with the aim of ensuring fairness or promoting a single organisational culture. However, a certain HRM practice may convey an entirely different, and at the worst case an unintended meaning, in another culture (Khilji, 2002). This might result in perception of HRM inappropriateness and ineffectiveness on the part of the local employee. e.g. using age as a criterion for selection may be appropriate in some context but inappropriate in another (Aycan, 2005). In a country like Chin, result of the appraisal depends on the relationship with the leaders and where the pay is not related to the performance appraisal (Shen, 2004). While the congruence between national cultural characteristics and management practices lead to better performance results, incongruence leads to dissatisfied, uncommitted, uncomfortable employees. Therefore, in order to be more effective, management practices should be adapted to national culture to a certain context. More, since subsidiaries have to hire employees from the local labour market in an attempt to attract the best talent, MNCs cannot ignore local practices to a large extent.

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Also, at the cross cultural interfaces, where individuals from different cultures meet and interact, perception about appropriate and effective HRM and its implementation will vary. Hence, understanding the attitudes of employees regarding implementation of HRM practices is also of critical importance.

The phenomenon of hybridization is also not a new topic for researchers in international management and especially in technology transfer between states (Shimoni & Bergmann, 2006). The main argument of these researchers is that technological transfer to a new environment encompasses uprooting as well as replanting original constructs within a different environment with the aim of producing hybrid configuration between the new and the original environment. By adopting the new argument, the hybridization of management value and practices has started to be the focus of a new research stream. In the context of MNCs, which operate across different cultures, the same process occurs in combining the local and home-country management cultures by opening a "Third space" where the headquarters management practices and values penetrate into the local managerial sphere. Hybridization, hence, replaces the dichotomies of non-western and western management through mixing effective parts of different cultural management systems (Jackson, 2009).

With the increased globalisation, issues like power dynamics and power imbalances at the cross cultural interfaces of western cultures and developing economies draws attention, although concepts of power in terms of international power relations are not frequently addressed in cross-cultural management studies (Jackson & Aycan, 2006). Research has established that the more dependent a subsidiary is on the resources of parent company, the more likely the practices will reflect the standardisation pushed by the parent company (Silverthorne, 2005).

Thus "Hybridity", as discussed, above, is perceived more appropriate and effective by the local employees, which in turn, helps to create a positive work environment leading to conclude that we should embrace both western and non-western indigenous knowledge rather than denigrating one, not only for the future success of MNCs operating in developing economies, but also for the happiness of local employees and also for improving productivity of the MNCs. All considerable parameters are variables in the domain dynamics of HRM practices and cultural scenario of both developed and developing countries, therefore, Hybridization seems to be the workable practical solution to the intricate issue of evolving right and balanced approach to HRM practices of MNCs in developing countries.

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